DIRECT TESTIMONY OF

JIMMY E. ADDISON

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2008-196-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Jimmy E. Addison and my business address is 1426 Main Street, Columbia, South Carolina. I am Senior Vice President and Chief Financial Officer of South Carolina Electric & Gas Company ("SCE&G" or the "Company") and hold a similar position at SCANA Corporation, which is the parent company of SCE&G.

Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS BACKGROUND.

A. I am a graduate of the University of South Carolina with a Bachelor of Science Degree in Business Administration, majoring in accounting, and a Master of Accountancy Degree. Also, I am a Certified Public Accountant in South Carolina. Prior to my employment by the Company in March 1991, I was employed for seven years by the public accounting firm of Deloitte & Touche, where I was designated an Audit Manager as a public utility accounting and audit specialist. I was also a partner in the public accounting firm of Hughes, Boan and Addison immediately prior to joining the Company in 1991.

Q. WHAT ARE YOUR DUTIES WITH SCE&G?

A. As Senior Vice President and Chief Financial Officer of SCE&G, I have responsibility for monitoring the Company's present and prospective financial condition; for formulating strategies to ensure that the Company can meet its capital requirements at the lowest reasonable cost; and for managing all accounting and financial matters related to the Company. In that regard, I meet regularly with members of the financial community, including the Wall Street analysts and credit rating agency personnel who follow the electric utility industry in general and SCE&G specifically. In these meetings, we discuss their perceptions and concerns about the Company, its financial and business position, its long-term strategy, capital plans, the capital markets and the utility industry generally. We also discuss the various risk factors that the Company faces as seen by investors. I am also regularly involved in discussions of investors' perspectives on the Company with underwriters and other experts as such views pertain to the issuance or refinancing of debt and the issuance of new common stock.

Q. WHAT LEVEL OF CONTACT HAVE YOU HAD WITH MEMBERS OF THE INVESTMENT COMMUNITY IN RECENT MONTHS?

A. During 2008, I have participated in multiple presentations to investment analysts, fund managers and others in New York, Boston, and Philadelphia, and have hosted several presentations in SCANA's offices in Columbia. I also hosted multiple conference calls with members of the investment community during this time. These contacts have involved detailed presentations of SCE&G's financial and construction plans and extensive conversations with members of the financial community about their questions and concerns related to these plans.

In addition, as will be described more fully later in my testimony, two of our principal credit rating agencies, Standard & Poor's and Fitch have recently concluded in-depth, confidential reviews of SCANA and SCE&G as a part of a comprehensive review of the companies' credit ratings. Moody's is in the process of concluding its review now. The rating agencies have conducted detailed reviews of SCE&G's plan to construct and finance VCSNS Units 2 & 3. While these rating agencies have concerns about certain issues related to these matters, SCE&G's principal long-term credit ratings were confirmed at a single A- level by both agencies. I will discuss these ratings actions in more detail later in my testimony.

Q. WHAT ROLE HAS THE DECISION BY THE COMPANY TO CONSTRUCT VCSNS UNITS 2 & 3 PLAYED IN YOUR

DISCUSSIONS WITH MEMBERS OF THE INVESTMENT COMMUNITY?

A. The construction and financing plans for VCSNS Units 2 & 3 have been the predominant focus of my recent discussions with investors, fund managers, investment analysts, and rating agency personnel. Over the past six months, I have spent a great deal of time with members of the investment community in discussions centered on construction of VCSNS Units 2 & 3, the EPC Contract with Westinghouse/Stone & Webster, and SCE&G's plan for financing this construction. My goal has been to ensure that the investment community understands the Company's financial plan and the steps that the Company is taking to manage the risks related to the construction of those units. The time I have spent in these discussions has given me a thorough understanding of the interests and concerns of the investment community related to VCSNS Units 2 & 3, and what will be necessary for SCE&G to finance VCSNS Units 2 & 3 on reasonable terms.

Q. WHAT IS YOUR CONCLUSION CONCERNING THOSE MATTERS?

A. As I will discuss more fully below, it is my opinion that the Company is fully capable of financing the construction of VCSNS Units 2 & 3 on reasonable terms provided that it receives an order in the current proceeding that is consistent with the request in the Combined Application. As my testimony will show, the investment community sees the Company as a well-managed and financially sound utility with all the tools necessary to complete the construction and financing of VCSNS Units 2 & 3 successfully. From the investor's perspective, a key question remaining to be answered is whether the Commission will issue a Base Load Review Order for the units on the terms requested in the Combined Application. The investors' other principal questions relate to the timing of the Nuclear Regulatory Commission ("NRC") licensing for the units – which could affect the construction schedule, and the possible effects of inflation and other cost issues on construction.

In my opinion, executing the financial plan related to the units depends principally on the Commission's order in this proceeding. Members of the investment community have asked extensive and detailed questions about the terms of the Base Load Review Act and the Combined Application in this proceeding. They are following the current proceedings closely. From my perspective, the order in this proceeding will be the principal determining factor in the ability of the Company to finance the construction of VCSNS Units 2 & 3 on reasonable terms.

Q. DOES YOUR TESTIMONY CONSIDER OTHER POINTS?

A. Yes. I will also testify concerning the importance of the financial and schedule contingencies contained in that Combined Application to the assessment of the Base Load Review Order by the financial community and the cost of equity that the Company has designated in the Combined Application.

<u>SCE&G'S FINANCIAL POSTURE</u>

Q. WHAT IS SCE&G'S CURRENT FINANCIAL POSTURE?

A. SCE&G and SCANA both have solid financial structures and the investment community generally has a positive view of the Company and its management and strategic direction.

Q. ON WHAT DO INVESTORS BASE THAT VIEW?

A. The investment community values the fact that SCE&G is a stable, vertically-integrated electric utility with a service territory that is experiencing significant growth. The investment community also recognizes that SCE&G's parent company, SCANA Corporation, has a strong commitment to its core utility operations and takes an appropriately conservative approach to the management of those operations and to investment in non-utility operations. SCE&G also benefits from the fact that utility regulation in South Carolina is seen as fair and reasonable, constructive, consistent and appropriately balancing diverse interests. It is well recognized that SCE&G has made significant capital investments in its electric system in recent years to meet the requirements of customer growth and increasingly stringent environmental regulations. The investment community has followed the related regulatory proceedings closely and believes that the Commission has treated both customers and the Company fairly in regards to such investments.

Q. HOW DO CREDIT RATING AGENCIES RATE SCE&G'S CREDIT?

A. SCE&G has solid investment grade credit ratings by all three national credit rating agencies. SCE&G's issuer ratings are: Moody's A3; Fitch A-; and Standard & Poor's A-. These issuer ratings reflect an assessment of the Company's financial strength that is favorable and is consistent across all three rating agencies. (*i.e.*, an A3 rating by Moody's is equivalent to an A- rating by Fitch and Standard & Poor's.) Senior secured debt, which includes the corporate bonds that would be issued to finance investments in VCSNS Units 2 & 3 over the long term, have slightly higher ratings: Moody's A2; Fitch A+; and Standard & Poor's A-.

Q. WHAT DO THE RATINGS THEMSELVES INDICATE?

A. The ratings indicate that rating agencies are quite confident in the on-going financial strength of the Company. All other things being equal, the ratings mean that SCE&G should be able to maintain access to markets on reasonable terms to meet future needs for debt financing. The ratings are quite strong, and even if downgraded one or two notches, SCE&G would remain a solid investments grade credit.

Q. WHAT IMPACT HAS SCE&G'S NUCLEAR CONSTRUCTION PLANS HAD ON THESE RATINGS?

A. First of all, and very significantly, in August, both Fitch and

Standard & Poor's affirmed a single A- rating for SCE&G having carefully reviewed the terms of the EPC Contract with Westinghouse/Stone & Webster, the Combined Application in this proceeding, the Base Load Review Act, the Company's application for a Combined Operating License ("COLA") with the Nuclear Regulatory Agency, and most especially the Company's approach for financing VCSNS Units 2 & 3. I know from interactions with these rating agencies that they looked very closely at all these matters, and specifically studied the terms of the Base Load Review Act and the Combined Application in this proceeding in great detail. These rating agencies based their decisions to affirm a favorable credit rating for the Company in part on their assessment of the Company's financial and construction plans as they are to be implemented under the terms of the Base Load Review Act. If these rating agencies had concluded that the Company's approach to constructing and financing VCSNS Units 2 & 3 was unworkable or fundamentally flawed, the result would not have been a single A- credit rating for SCE&G. The ratings granted demonstrate that the agencies have found reasonable grounds to conclude that if SCE&G is allowed to execute its intended approach to constructing and financing these units, the Company can continue to support a solid credit rating and access to capital markets on reasonable terms.

Q. WHAT IS THE OUTLOOK FOR THESE RATINGS?

A. Moody’s gives SCANA’s and SCE&G’s ratings an outlook of Stable. The Fitch and Standard and Poor’s ratings were accompanied by a finding that the Company’s outlook was Negative. The negative outlook indicates only that, as Fitch has expressly stated, it will be difficult for the Company to maintain its current credit status if circumstances prevent it from executing its current plans for building and financing VCSNS Units 2 & 3 as intended.

As stated by Standard & Poor’s:

> A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action.

There is an unavoidable element of risk in any base load generation expansion plan. As Standard & Poor’s stated in its August 2, 2008 release: “The current ratings reflect SCANA's excellent business risk profile and a moderate improvement in the financial risk profile over the last 12 months. Ratings also reflect the potential for increased business risk and for pressure on the consolidated financial risk profile as SCANA prepares to build two new nuclear power plants.”

As Fitch stated in its press release of August 4, 2008 in reference to the change in outlook: “Ultimately, the rating impact will depend on management's financing plan, its ability to control construction costs, the regulatory treatment of investment expenditures and capital market access."

Q. IN YOUR OPINION, WHAT IS THE LIKELIHOOD OF A SIGNIFICANT DECLINE IN RATINGS AS A RESULT OF NUCLEAR CONSTRUCTION?

A. As Fitch has indicated, the principal issues concerning the future of SCE&G's credit ratings are construction cost control, licensing and the regulatory treatment of investment in new nuclear assets. As Mr. Marsh and Mr. Byrne will testify, the Company has greatly reduced the cost-related risk through the Firm/Fixed price elements of the EPC Contract and other measures. As they also testify, the Company is confident that the Nuclear Regulatory Commission will issue a Combined Operating License for the units on a schedule that will support the construction schedule currently before the Commission.

Regulatory treatment of SCE&G's investment in the units is the remaining issue and is chiefly in the hands of this Commission. It is my opinion, based on extensive interaction with the investment community, that if the Commission issues a Base Load Order along the lines requested in the Combined Application in this proceeding, then that issue will be largely resolved. SCE&G will have demonstrated the regulatory conditions necessary for it to finance the units successfully and to maintain access to debt capital on reasonable terms during construction.

Q. DO THE 2007 DOWNGRADE OF SCE&G'S CREDIT RATING BY MOODY'S AND THE DROP IN SHORT TERM RATING BY FITCH PUT IN DOUBT SCE&G'S ABILITY TO FINANCE VCSNS UNITS 2 & 3 SUCCESSFULLY?

A. No, they do not. In December of 2007, Moody's downgraded SCE&G's issuer's rating by one notch to its current, but still very favorable, A3 level. As a result of its August 2008 review, Fitch downgraded the short-term debt of SCANA and its subsidiaries, but affirmed its Single A- rating for SCE&G as an issuer and an A+ rating for SCE&G's senior secured debt. Even after these rating revisions, SCE&G as an issuer retains a consistent single A- equivalent rating across all rating agencies. These rating changes, although not welcome, do not in any way cast doubt on the ability of the Company to issue long term debt on reasonable terms going forward. SCE&G still enjoys a strong investment grade rating that has been affirmed by two rating agencies after a comprehensive review of the Company's plans for building and financing VCSNS Units 2 & 3.

Q. TURNING TO THE EQUITY COMPONENT OF THE CAPITAL STRUCTURE, COULD YOU DISCUSS HOW SCANA STOCK IS PERFORMING?

A. Share prices and price earnings ratios can and will vary significantly over time due to market conditions and other factors.

Nonetheless, at the time this testimony is filed, shares in SCANA Corporation have recently traded in the $35-$40 dollar range and with a price to earnings ratio between 12 and 13. These figures indicate that SCANA shares command a good valuation in national equity markets and that SCANA should be able to raise equity capital on reasonable terms to support its construction plans.

These favorable share prices also follow extensive scrutiny of SCE&G's plans to construct and finance VCSNS Units 2 & 3 by sell-side investment analysts, and buy-side investment and hedge fund managers. Based on my contacts with them, through multiple presentations over this period, I know that these groups have carefully scrutinized the Base Load Review Act, SCE&G's filings in this proceeding, and SCE&G's proposed approach for financing VCSNS Units 2 & 3. Analysts and managers have taken this information and the financial information contained in the Combined Applications in this proceeding, and have entered it into the financial models that they maintain to evaluate the Company's financial prospects and to predict its future financial performance. The current stock value reflects the results of their analysis and their expectation of the outcome of this proceeding.

In my opinion, the equity investment community is reasonably comfortable that SCE&G's financing approach is workable and likely to succeed. If the equity investment community believed that SCE&G's plan for constructing and financing VCSNS Units 2 & 3 was fundamentally flawed or unworkable, then SCANA stock would be trading at a significant discount, which it is not.

Q. WHAT IS THE STATED POSITION OF INVESTMENT INSTITUTIONS REGARDING SCANA STOCK?

A. Presently SCANA stock is rated by seven financial institutions. Of the seven, two believe that SCANA stock will outperform market expectations and so have issued a Buy recommendation. Four believe that SCANA stock will perform up to current expectations and have issued a Hold recommendation. Only one investment house believes that SCANA will underperform current expectations, and has issued a Sell recommendation. The two Buy recommendations are based on reviews of SCANA stock in the late summer of 2008 based on an extensive and detailed review of all publically available information related to the EPC Contract, the Combined Application in this proceeding, the Combined Operating License Application before the NRC and SCE&G's approach for financing VCSNS Units 2 & 3. Again, if the Company's plans for constructing or financing these units were believed to be unworkable or fundamentally flawed, the recommendations from these analysts would likely be quite different.

SCE&G'S PLAN FOR FINANCING CONSTRUCTION OF VCSNS UNITS 2 & 3

Q. PLEASE EXPLAIN SCE&G'S PLAN FOR FINANCING CONSTRUCTION OF VCSNS UNITS 2 & 3.

A. SCE&G's capital plan calls for the Company to finance the construction of VCSNS Units 2 & 3, and other capital needs of SCE&G, through the issuance of long-term debt matched with retained earnings and equity infusions from SCANA so that incremental investment is effectively financed at equity/debt ratio of approximately 50/50. Since the shares of SCE&G are not publically traded, outside equity will be raised by SCANA either through new public issues, or by issuing new shares to satisfy the current needs of employee's 401(k) investments and current shareholders' dividend reinvestments.

Q. WHAT ROLE WILL RATE REVISIONS UNDER THE BASE LOAD REVIEW ACT PLAY IN THIS PLAN?

A. During the construction period, SCANA and SCE&G will rely on annual rate adjustments under the Base Load Review Act. Those adjustments will provide revenue to cover debt service on bonds, to maintain the financial ratios required to support an investment grade credit rating, and to pay the dividends and generate the earnings necessary to support a reasonable stock price. The financing approach is intended to provide sufficient revenues for SCE&G to maintain the financial ratios and valuation criteria necessary to keep an investment grade credit rating, to meet all requirements of its bond indentures, to maintain stable earnings, and to support a solid valuation for SCANA equity.

Q. WHAT IS SCANA'S PLAN RELATED TO DIVIDEND PAYMENTS DURING THIS TIME?

A. During this period, SCANA's plan is to maintain dividend pay-out ratios that are comparable to its current ratios of 55-60%. As mentioned above, maintaining stable and predictable dividend pay-out ratios are very important to maintaining a favorable valuation for a utility stock.

Q. WHAT IS SCE&G'S PLAN CONCERNING ANNUAL REVISED RATE ADJUSTMENTS?

A. The estimated revised rates adjustments necessary to support the financing plan for VCSNS Units 2 & 3 are found in Exhibit M to the Combined Application which is attached to my testimony as **Exhibit M (Exhibit __ (JEA-1).** As set forth in **Exhibit M,** at **Chart B**, the average, annual rate increase necessary to support investment in the units is estimated to be 2.49%.

Q. WHAT IS YOUR OPINION CONCERNING SCE&G'S PLAN FOR FINANCING THE CONSTRUCTION OF VCSNS UNITS 2 & 3?

A. It is my opinion that SCE&G's plan for financing VCSNS Units 2 & 3 is entirely reasonable and workable assuming the order issued here is as requested. If the provisions of the Base Load Review Act are applied in that order as the Company has requested, then the Company will have a reasonable opportunity to earn the cash returns required to support the debt and equity necessary to finance the units on reasonable terms.

Q. WHAT IS THE BASIS OF YOUR CONCLUSION?

A. My conclusion is based on financial modeling which shows that the Company can maintain the necessary measures of financial strength and attractiveness to investors under the assumptions laid out in the Combined Application. SCE&G's financing plan carefully considers the financial ratios, dividend payout ratios and other fundamentals on which the applicable credit ratings and the valuations of stock are based. With an appropriate order in this proceeding and timely rate adjustments during construction, SCE&G and SCANA can maintain financial ratios and other fundamental measures of investment value which will support a solid investment grade rating for SCE&G's debt and a reasonable valuation for shares of SCANA's equity during the construction period.

Q. IS THE ORDER IN THIS PROCEEDING IMPORTANT TO INVESTORS IN OTHER WAYS?

A. Yes. In the immediate sense, the Base Load Review Act provides investors with clear assurances that if a reasonable order is issued here, SCE&G will have the cash resources necessary to finance VCSNS Units 2 & 3 successfully during construction. From another perspective, the prudency determination under the Base Load Review Order provides assurances that the Company's decision to proceed with construction of the units, once affirmed, will not be second-guessed later. Such second guessing puts at risk not just the cash needed to support financing during construction, but also the investors' confidence that they will receive a reasonable return on their capital in the long-term.

Q. DO CUSTOMERS BENEFIT FROM THE ASSURANCES THAT THE BASE LOAD REVIEW ACT GIVES TO INVESTORS?

A. Yes, customers receive a benefit from these assurances in the form of reduced financing costs for the units, which results in lower rates. Financial markets serve in large measure to evaluate and price financial risk. Actions that reduce risks reduce the cost of obtaining capital. For a capital-intensive endeavor like the construction of new base load generation units, reduced risks and lower capital costs mean much lower electricity costs to customers over the lifetime of the plant. Regulation passes these lower costs to customers in the form of lower rates.

Q. WOULD A CHANGE IN THE CREDIT RATINGS OR STOCK VALUATIONS MENTIONED ABOVE CHANGE YOUR ASSESSMENT THAT SCE&G'S PLAN FOR FINANCING THE CONSTRUCTION OF VCSNS UNITS 2 & 3 IS FUNDAMENTALLY SOUND AND WORKABLE?

A. No, it would not. The current credit ratings and stock values provide a valuable point of independent confirmation for the conclusion that SCE&G's financing plan is sound. If it were not, those ratings and values would be different. But my opinion about the validity and soundness of that plan is not dependent on them. My opinion is based on the analysis discussed above.

That said, changes in credit ratings and stock valuations are to be expected over the course of a project as lengthy and complex as the construction of two nuclear units. Changes in these items may or may not have any real bearing on the soundness of the Company's plan. Any such changes would need to be reviewed carefully to determine what, if any, relevance they might have to the Company's analysis showing that the financing plan is fundamentally sound.

CONTINGENCIES AND INFLATION FACTORS

Q. WHAT PRICE CONTINGENCIES DOES THE APPLICATION CONTAIN?

A. The Combined Application contains price contingencies in the amounts and categories that are set forth in Exhibits F and I of the Combined Application. In addition, SCE&G has asked for the flexibility to use the price contingency as a single pool of funds and to be able to move those funds from year to year as needed to meet actual contingencies as they arise.

Q. WHAT SCHEDULE CONTINGENCIES DOES THE APPLICATION CONTAIN?

A. The Combined Application contains two schedule contingencies. If the construction schedule is delayed, one contingency would allow SCE&G to move any or all schedule milestones into the future by 30 months without jeopardizing the validity of the order in this proceeding. The other schedule contingency allows the project schedule or elements of it to be accelerated. That acceleration contingency allows milestones and their associated capital costs to be moved forward by up to 24 months without violating the terms of the order in this proceeding.

Q. ARE THESE CONTINGENCIES AUTHORIZED BY THE BASE LOAD REVIEW ACT?

A. Yes. Contingencies as to schedule and cost are specifically required by the Base Load Review Act in orders issued under it. See S.C. Code Ann. § 58-33-270(b)(2).

Q. WHAT SIGNIFICANCE DO THESE CONTINGENCIES HAVE FOR SCE&G'S PLAN FOR FINANCING CONSTRUCTION OF VCSNS UNITS 2 & 3?

A. These contingencies serve to assure investors that even if there are reasonable deviations from the price and schedule projections contained in the Combined Application, the financial assurances granted by the order in this proceeding will not be put in jeopardy, and the revised rates filings on which the financial plan is based will not be put in doubt. The Company does not currently anticipate needing to use these contingencies, but the presence of them will assure investors that if circumstances change -- within reasonable limits-- SCE&G's ability to carry through on its financing plan will not be made uncertain, even for the limited period of time that might be necessary to amend the order in this proceeding. These are important and valuable assurances that will ultimately benefit the customers.

Q. WHAT INFLATION AND ESCALATION FACTORS DOES THE APPLICATION CONTAIN?

A. The Combined Application contains several inflation and escalation factors that apply to different categories of plant capital costs. They are as set forth in Exhibits I to the Combined Application.

Q. WHAT SIGNIFICANCE DO THESE INFLATION AND ESCALATION FACTORS HAVE FOR SCE&G'S PLAN FOR FINANCING CONSTRUCTION OF VCSNS UNITS 2 & 3?

A. These inflation factors provide assurances to investors that the capital cost schedules contained in Exhibit F to the Combined Application will adjust automatically for inflation as experienced during the construction period, which is 11 years long. As Company Witness Best will testify, the inflation factors chosen are reasonable. They are either the negotiated escalation factors that will directly apply to costs based on the terms of the EPC Contract or they are objectively reported inflation factors in wide-spread use in the industry. Applying those factors to the costs in

Exhibit F of the Combined Application is an appropriate and helpful means of reducing investors' concerns about the inflation risk related to investing in this project.

Q. ARE THESE INFLATION FACTORS AUTHORIZED BY THE BASE LOAD REVIEW ACT?

A. Yes. Inflation factors are specifically required by the Base Load Review Act to be set forth in orders issued under it. See S.C. Code Ann. §§ 58-33-250(7); 58-33-270(b)(2).

RETURN ON EQUITY

Q. WHAT RETURN ON EQUITY IS SCE&G REQUESTING FOR CALCULATING REVISED RATES?

A. For purposes of the order in the proceeding, and unless and until revised by future filings by the Company, SCE&G is requesting that the 11.0% return on equity established in Order 2007-855-E apply to revised rates filings related to VCSNS Units 2 & 3. Such a request is authorized under the Base Load Review Act, S.C. Code Ann. §§ 58-33-250, and 58-33-220(16). SCE&G believes that a current return on equity set at that 11.0% level will provide sufficient cash flow to support financing of the units, and will meet investors' reasonable expectations of a return given the risks involved in base load construction. No project-specific return on equity is requested here. Company Witness Best will put in evidence SCE&G's current capital structure and cost of debt as adjusted for anticipated debt issuances in the near term. These figures will be updated with each future revised rates filing.

CONCLUSION

Q. WHAT ARE YOU ASKING THIS COMMISSION TO DO?

A. SCE&G respectfully requests that the Commission issue a combined order under the Base Load Review Act, and the Siting Act approving construction of VCSNS Units 2 & 3 under the terms set forth in the Combined Application in this matter.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT M

YEAR-BY-YEAR REVENUE REQUIREMENTS AND PROJECTED RATE IMPACT OF INVESTMENT

Combined Application of South Carolina Electric & Gas Company for a Certificate of Environmental Compatibility and Public Convenience and Necessity and for a Base Load Review Order
Public Service Commission Docket No. 2008-196-E

1. INTRODUCTION

Exhibit M provides the year-by-year revenue requirements associated with SCE&G's investment in V. C. Summer Nuclear Station ("VCSNS") Units 2 & 3. **Exhibit M, Chart B,** provides the projected rate impact associated with the Units.

2. YEAR-BY-YEAR REVENUE REQUIREMENTS

Chart A of **Exhibit M** provides the year-by-year revenue requirements associated with the amount of Construction Work in Progress (CWIP) and of VCSNS Units 2 & 3 as set forth in **Exhibit F** to this Application and the in-service expenses set forth on **Exhibit O** to this Application. As required by the Base Load Review Act, the revenue requirements set forth on this **Exhibit M, Chart A** have been calculated using the weighted average cost of capital set forth on **Exhibit L** to this Application.

The outstanding CWIP balance and associated revenue requirement provided in **Exhibit M, Chart A** is measured as of June 30th of each year during the construction of VCSNS Units 2 & 3. The filing date of future revised rates proceedings, the designated date for measuring CWIP to be considered in each proceeding, the amount of capital actually expended by each designated date, and other factors may vary, and as a result, the timing and amount of CWIP reflected in future revised rates adjustments may vary.

3. PROJECTED RATE IMPACT OF INVESTMENT

Also attached to this **Exhibit M** is **Chart B** which provides an estimate of the future impacts of the CWIP and in-service expenses associated with VCSNS Units 2 & 3 on SCE&G's retail electric rates. To isolate the impact of the investment in VCSNS Units 2 & 3 from other factors, the current retail fuel factor is assumed to remain constant, as are the margin revenues generated per billing unit by retail electric base rates. However, projected growth in retail customers' demand and energy sales and the benefit of additional nuclear generator or fuel costs where VCSNS Units 2 & 3 connection line are reflected in the analysis. The projections in this **Exhibit M, Chart B,** also include the effects of estimated Federal Production Tax Credits. As indicated in the notes to **Exhibit O, Chart A,** the Company intends at a future date to seek Commission approval to pass any available Federal Production Tax Credits through to customers by means of credits to electric fuel cost expenses.

Many of the factors related to this analysis and to future rate increases are subject to change over time. Those factors include the amount and timing of CWIP expenses and in-service expenses; the timing of revised rates filings; the amount of AFUDC included in capital costs; the rates of growth in demand and energy sales on SCE&G's system; the amount and timing of future base rate increases; changes in fuel costs and generation mix; changes in the cost of debt, cost of equity and capital structure that make up the weighted average cost of capital; and other factors. As a result, the actual rate increases associated with investment and operation of VCSNS Units 2 & 3 may vary from those reflected on **Chart B** of **Exhibit M**.

EXHIBIT M, Chart A

Schedule of Year by Year Revenue Requirements

Combined Application of South Carolina Electric & Gas Company for a Certificate of Environmental Compatibility and Public Convenience and Necessity and for a Base Load Review Order

(Thousands of $)

Nuclear Construction	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Totals
Construction Work in Process in Rates	$ 71,848	$ 384,570	$ 524,227	$ 705,797	$ 775,704	$ 794,209	$ 764,233	$ 603,063	$ 553,098	$ 280,400	$ 195,851	$ 5,653,000
Cumulative	$ 71,848	$ 456,418	$ 980,645	$ 1,686,442	$ 2,462,146	$ 3,256,355	$ 4,020,588	$ 4,623,651	$ 5,176,749	$ 5,457,149	$ 5,653,000	
Incremental Revenue Required	$ 8,986	$ 48,098	$ 65,565	$ 88,274	$ 97,017	$ 99,332	$ 95,583	$ 75,425	$ 69,176	$ 35,070	$ 24,495	$ 707,021
Cumulative Revenue Required	$ 8,986	$ 57,084	$ 122,649	$ 210,923	$ 307,940	$ 407,272	$ 502,855	$ 578,280	$ 647,456	$ 682,526	$ 707,021	

Transmission Projects	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Totals
Construction Work in Process in Rates	$ -	$ 192	$ 203	$ 3	$ 845	$ 10,010	$ 30,475	$ 61,679	$ 40,785	$ 98,345	$ 417,839	$ 660,376
Cumulative	$ -	$ 192	$ 395	$ 398	$ 1,243	$ 11,253	$ 41,728	$ 103,407	$ 144,192	$ 242,537	$ 660,376	
Incremental Revenue Required	$ -	$ 24	$ 25	$ -	$ 106	$ 1,252	$ 3,812	$ 7,714	$ 5,101	$ 12,300	$ 52,259	$ 82,593
Cumulative Revenue Required	$ -	$ 24	$ 49	$ 49	$ 155	$ 1,407	$ 5,219	$ 12,933	$ 18,034	$ 30,334	$ 82,593	

Total	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Totals
Construction Work in Process in Rates	$ 71,848	$ 384,762	$ 524,430	$ 705,800	$ 776,549	$ 804,219	$ 794,708	$ 664,742	$ 593,883	$ 378,745	$ 613,690	$ 6,313,376
Cumulative	$ 71,848	$ 456,610	$ 981,040	$ 1,686,840	$ 2,463,389	$ 3,267,608	$ 4,062,316	$ 4,727,058	$ 5,320,941	$ 5,699,686	$ 6,313,376	
Incremental Revenue Required	$ 8,986	$ 48,122	$ 65,590	$ 88,274	$ 97,123	$ 100,584	$ 99,395	$ 83,139	$ 74,277	$ 47,370	$ 76,754	$ 789,614
Cumulative Revenue Required	$ 8,986	$ 57,108	$ 122,698	$ 210,972	$ 308,095	$ 408,679	$ 508,074	$ 591,213	$ 665,490	$ 712,860	$ 789,614	

Assumptions:	
Gross Weighted Average Cost of Capital	*12.51%*
Annual Base Load Review Filing	May 30
Annual CWIP True-Up	June 30
Rates Effective	March 30, 2009, October 30, 2009, and annually on October 30

HEARING EXHIBIT __
(JEA-1)

EXHIBIT M, Chart B

Retail Rate Impact Projections

Combined Application of South Carolina Electric & Gas Company for a Certificate of Environmental Compatibility and Public Convenience and Necessity and for a Base Load Review Order

(Millions of $)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Retail Margin Forecast (existing rates)	$ 1,272	$ 1,303	$ 1,340	$ 1,373	$ 1,401	$ 1,365	$ 1,378	$ 1,392	$ 1,420	$ 1,449	$ 1,478	$ 1,508	$ 1,538	$ 1,559	
Base Retail Fuel Costs @ existing rates	$ 575	$ 618	$ 633	$ 650	$ 665	$ 657	$ 665	$ 673	$ 686	$ 700	$ 714	$ 728	$ 743	$ 754	
Nuclear Fuel Cost Adjustment										$ (123)	$ (123)	$ (123)	$ (255)	$ (255)	
Production Tax Credits Applied to Fuel Costs										$ (124)	$ (101)	$ (65)	$ (98)	$ (98)	
Net	$ 575	$ 618	$ 633	$ 650	$ 665	$ 657	$ 665	$ 673	$ 686	$ 452	$ 489	$ 540	$ 389	$ 401	
Total Base Revenues	$ 1,847	$ 1,921	$ 1,973	$ 2,024	$ 2,066	$ 2,022	$ 2,043	$ 2,065	$ 2,106	$ 1,901	$ 1,968	$ 2,048	$ 1,927	$ 1,960	
Incremental Revenue Requirements-BLRA	$ -	$ 9	$ 48	$ 66	$ 88	$ 97	$ 100	$ 100	$ 83	$ 298	$ 53	$ 71	$ 216	$ -	$ 1,229
Cumulative Revenue Requirements-BLRA	$ -	$ 9	$ 57	$ 123	$ 211	$ 308	$ 409	$ 508	$ 591	$ 889	$ 942	$ 1,013	$ 1,229	$ 1,229	
Gross Revenue	$ 1,847	$ 1,930	$ 2,030	$ 2,146	$ 2,277	$ 2,330	$ 2,452	$ 2,573	$ 2,697	$ 2,790	$ 2,910	$ 3,061	$ 3,156	$ 3,189	
Retail Sales	22,150	22,764	23,300	23,958	24,476	24,200	24,482	24,784	25,268	25,778	26,298	26,822	27,356	27,774	
Total $/KWH	$ 0.0834	$ 0.0848	$ 0.0871	$ 0.0896	$ 0.0930	$ 0.0963	$ 0.1001	$ 0.1038	$ 0.1067	$ 0.1082	$ 0.1107	$ 0.1141	$ 0.1154	$ 0.1148	
Annual Rate Change		**0.49%**	**2.8%**	**2.8%**	**3.8%**	**3.5%**	**4.0%**	**3.7%**	**2.8%**	**1.4%**	**2.2%**	**3.1%**	**1.1%**	**-0.5%**	**2.49%**

Incremental Revenue requirements in 2016 and 2019 include projected in-service costs

The forecasts listed here are indicative of the rate impacts that may be expected from construction and operation of VCSNS Units 2 & 3 on a stand-alone basis. These forecasts do not reflect overall rate changes during the period, which may include changes in such things as fuel costs, and base rates. In addition, actual rate impacts from the Units will vary based on such things as the actual rates of growth in customers and demand during the period, changes in SCE&G's cost of capital, changes in the amount and timing of investment in the Units, changes in in-service expenses, and other factors. Please see the introduction to the Exhibit for additional information.

HEARING EXHIBIT __
(JEA-1)